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Subsidiary management in Malaysian multinational firms

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Abstract

Research on Asian multinational enterprises (MNEs) from the newly industrialized economies (NIEs) has gained popularity recently. But there are limited studies on MNEs from the lesser developed Asian countries and even less research attention has been given to the area of subsidiary management in Asian MNEs. This paper aims to contribute to this knowledge gap with empirical evidence on subsidiary management from a study based on nine case studies of MNEs from Malaysia, a rapidly developing country. Some differences as well as commonalities in the management of their subsidiaries were found among our sample firms. These findings are discussed in relation to the literature on management of subsidiaries in other Asian and western MNEs. Implications for research and limitations of the study are covered

Keywords

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Subsidiary Management in Malaysian Multinational Firms

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ABSTRACT
Research on Asian multinational enterprises (MNEs) from the newly industrialized economies (NIEs) has gained popularity recently. But there are limited studies on MNEs from the lesser developed Asian countries and even less research attention has been given to the area of subsidiary management in Asian MNEs. This paper aims to contribute to this knowledge gap with empirical evidence on subsidiary management from a study based on nine case studies of MNEs from Malaysia, a rapidly developing country. Some differences as well as commonalities in the management of their subsidiaries were found among our sample firms. These findings are discussed in relation to the literature on management of subsidiaries in other Asian and western MNEs. Implications for research and limitations of the study are covered.

INTRODUCTION
Most research in Asian MNEs has been on the dragon multinationals [35] from the NIEs. These research studies generally cover the nature, characteristics, and internationalization strategies of these multinationals. However limited research attention focuses on the management, interaction with and the role of the overseas subsidiaries of these Asian MNEs from the NIEs. While the dragon multinationals are the key players among Asian MNEs in the global arena, there are now emerging Asian MNEs from other Asian developing economies, which are less industrialized, such as Malaysia, Thailand, China, and Indonesia. Research on these emerging Asian MNEs [48] is limited, but increasing. In addition, little of this research work focuses on the management of their overseas subsidiaries and affiliates. Hence there is clearly a research and knowledge gap here. The objective of this paper is to provide some empirical research data and analysis towards filling this research gap. This paper will analyse and discuss the management of subsidiaries and affiliates of emerging MNEs from Malaysia, a rapidly developing country. Empirical data from nine case studies is used primarily for this paper. This exploratory research explores the nature and scope of subsidiary management in the Malaysian MNEs and examines whether they are different from those of the Asian dragon multinationals and the western MNEs. A review of the literature is followed by research methodology, findings and discussion. Implications for further research are also discussed.

LITERATURE REVIEW & RESEARCH METHODOLOGY
The extensive literature on subsidiary management in western MNEs are reviewed. The limited studies in this topic in Asian MNEs are covered, indicating a research gap for this paper. This study utilizes a case case methodolody which is described. Additional details are available from the author.

EMPIRICAL RESEARCH FINDINGS
Our case firms vary in sales size from MYR18 billion to MYR120 million, with an average of MYR4.5 billion (exchange rate of the MYR (Malaysian Ringgit) is about MYR3.40 – 3.50 to the USD in 2007). The largest firms were two diversified firms (designated as DL and DU), followed by one in consumer products (CP), diversified products (DM), packaging materials (PM), household and personal products (HP), garment and property (GP) and two electronics products (EC and EI). Most of our case firms really began rapid internationalization in the mid-1990s. In the case of the firm, PM, international ventures only started in 2002/03. Hence most of our case firms are relatively late comers in internationalization. In terms of geographical spread of internationalization, our Malaysian case firms have fewer overseas locations when compared to MNEs from the advanced countries and even the NIEs. In general, our case firms tend to concentrate their production facilities in the Asian region. However, our case firms also ventured into more developed countries

Differences in the management of their subsidiaries were evident in our case firms. The 3 diversified firms were managed and organized along divisional lines. In firm DU the heavy equipment and oil and gas divisions were internationalized and separately managed. In these 2 businesses, the operations in the various countries reported to the divisional managers, who in turn reported to the CEO. The overseas subsidiaries were either wholly owned subsidiaries or joint ventures. In the oil and gas division, a larger number were organized along joint venture or strategic alliance lines. This was necessary to acquire advanced technologies in oil and gas (as the firm did not have much inherent expertise) from partners in advanced countries such as Japan, Germany, Norway and Australia, or to enter with ease such markets like China. While the overseas subsidiaries in the heavy equipment division were tightly controlled due to the firm's traditional core competencies in this business, management in the oil and gas sector was more consultative and early emphasis was placed on learning and acquisition of expertise or strategic assets from the more technologically advanced partners. The firm had well developed reporting structure, with extensive reporting procedures and monthly executive meeting. The other 2 diversified firms, DL and DM, were also managed by business divisions. However the management and control of the overseas subsidiaries in these firms was tight, with limited decision making authority being delegated. The Group CEOs of these firms were very hands-on CEOs, who were actively involved in all aspects of operations. However some operational adaptation and flexibility were given in local marketing and HR activities.

In consumer product firm, CP, the management of the subsidiaries varied by country location. For example, n its wholly-owned operations in Vietnam, key management and decision making were made at head office in Malaysia. Top Malaysian managers ran this business, while the production manager and workers were Vietnamese. In its Indonesian joint venture, which was majority-owned, the general manager and financial officer were Malaysians, while the local partner headed marketing. Firm HP in the household and personal care business was also run on a country basis, with the country managers (China, Indonesia, Vietnam) reporting to the CEO. The packaging material case firm, PM, had two wholly owned manufacturing subsidiaries in Vietnam. These reported directly to the Executive Director in Kuala Lumpur. Three Malaysian managers (in finance, operations and marketing) ran each of the two manufacturing operations in Vietnam. The rest of the workforce was local. Key decisions were centralized at the head office

In the electronic components business, firm EC manufactures largely on an OEM-basis for global electronics customers. Due to its OEM nature, key strategic decisions on products, pricing, market cope and finance were centralized at the Malaysian head office. Local operations at the manufacturing levels were staffed by locals, with the exception of the Philippines where a Malaysian manager was used. However, all these subsidiaries were closely supervised and coordinated by the CEO and his executive team from Malaysia. Hence the overseas operations were highly integrated and decision autonomy was limited. The other electronics firm, EI, was more oriented towards adapting components and products for host country markets. Business development was essentially managed by a team out of head office, with local adaptation and fabrication work delegated to the country personnel. Firm GP only had garment manufacturing operations in Sri Lanka. This OEM operation was basically run out of the head office, with sales and key decisions with international buyers made there. Local staffing and HR matters were left to local managers.

DISCUSSION

Our research findings indicate differences in the management of subsidiaries among our 9 case study firms. Three diversified firms were organized along business divisions while the remainders were largely country-based. None had the international division, which is a common organizational structure reported in western literature for the early stages of internationalization (e.g., Stopford & Wells [50]). The need for greater integration along business lines in the divisional setup or local responsiveness in the country structure were preferred by our case firms.

Using the strands of development in subsidiary-management discussed by Paterson and Brock [39] our case firms were in the early stages of development, with emphasis on the strategy-structure and the HQ-subsidiary relationship stages. This can be explained in terms of the motives of our case firms investing in these countries. The internationalization motives of our case firms were largely market driven and the availability of low cost inputs. For example, 5 out of 9 case firms were in China to tap the huge Chinese market. Hence the roles of our case firms were a combination of what White & Poynter [54] termed as marketing satellites and miniature replicas. Only in the OEM manufacturing of electronic components by firm EC and garments by GP can the role of the subsidiary be termed as rationalized manufacturers. Hence product and market scope of the subsidiaries were determined by head office and little value-adding scope (Dorrenbacher & Gammelgaard [14]) was accorded to the subsidiaries.

A critical motive for internationalization among Asian MNEs from the NIEs is to acquire strategic assets and knowledge from partners or strategic alliances from advanced countries. The rapid learning and acquisition of expertise and knowledge is important to the internationalization of Asian MNEs that are latecomers (Mathews [34], [35]). This role was described as critical in the case of our firm DU in the oil and gas sector. DU had limited expertise in this field but substantial capital, and its rapid internationalization was facilitated by the use of joint ventures and strategic alliances to acquire and learn from its partners from advanced countries. A conscious attempt was made at learning and absorption with the use of ‘shadow teams’ attached to foreign technical and managerial experts. Hence these subsidiaries or ventures had a strategic role to play in firm DU. This knowledge acquisition role was also existent in our firms, EC and EI in electronic component manufacturing, but was not really stressed. Of course, our other case firms were also learning in terms of acquiring local market knowledge and business connections in the host countries. For example, China was a difficult market to crack and our case firms, particularly firm DL, had been successful in acquiring local market knowledge and networks (guanxi). In the majority of our case firms, the conscious acquisition of strategic assets and knowledge do not seem to be clearly articulated. It is necessary to articulate and plan the roles that the subsidiaries should play in order to facilitate and accelerate the rapid internationalization of firms.

Recent writings suggest a view towards increasing autonomy of subsidiary management, particularly in the context of a global network of parent and subsidiaries with differentiated roles (e.g., Birkinshaw & Hood [7], Paterson & Brock [39], Manolopoulos [36]). In our case firms, autonomy and decentralization was generally limited. All strategic decisions were made at head office, though some autonomy and responsiveness were given for local production and human resource functions. This was necessitated by the use of local inputs and labour. In HRM at the host country level, a local responsiveness approach was usually undertaken, and is in line with the finding of a varied HR approach found by Chang et al. [11]. For Asian MNEs from the NIEs, Chen & Wong [12] suggest that successful subsidiary firms has greater autonomy in strategy and pricing decisions, and Tsai et al. [51]indicate that active subsidiaries with higher satisfaction rating has liberal delegation from headquarters. This is not the case for our firms from Malaysia. Our firm DL's retail subsidiaries in China were successful with limited autonomy as the CEO was a very involved in all key decisions. The relative size of our case firms and the desire to ensure success for the early internationalization efforts contributed to the stricter control of overseas operations. A more nuanced approach to the issue of subsidiary autonomy depending on the decision area can be adopted by firms for more effective subsidiary-management.

Frequent interaction, meetings and visits between the subsidiaries and head office were the hallmark of subsidiary management in our case firms. Such interactions and close parent-subsidiary relations also facilitated socialization and the use of cultural control in subsidiary management. As indicated by Chen and Wong [12] closer parent-subsidiary relationship could lead to more successful subsidiary operations. The complex and interactive effects of the impacts of the different types of control mechanism (Jaussaud and Schaaper [32]) were not ascertained in our exploratory study. This is not a well research area and is worthy of further study, particularly for Asian MNEs, where much needs to be learnt.

Our findings suggest some differences in subsidiary management in our sample as compared with those in other MNEs from NIEs and advanced countries. How important is country of origin, including the level of economic development of the country of parent firms, in determining the nature and type of subsidiary management practices? The picture is not clear. Edwards et al. [18] suggested no differences in subsidiary autonomy by country of national origins, while Sim [47] found differences in decentralization among American, British and Japanese firms. The situation for MNEs from the NIEs and lesser developed countries is even more opaque, due to the lack of empirical research studies. Hence more research is indicated in the area of subsidiary management for Asian MNEs, particularly from countries less developed than the NIEs.

CONCLUSIONS

Our exploratory study provides new empirical research data on the management of subsidiaries of emerging Malaysian multinational enterprises. This is an empirical contribution in an area that has been neglected. The research findings from our 9 case firms reveal differences in subsidiary management as well as commonalities among them. While the diversified firms tend to use business divisional organizational structure to manage their subsidiaries, the rest tend to use a country structure. One of the case firms was planning to move to a regional structure. Unlike western MNEs that utilizes the international structure during the early stages of internationalization, our case firms did not use this form. Our case firms were tightly controlled, with key divisions made at the head offices. Adaptation was provided for local production, sales and human resource decisions. This pattern is probably not unlike most Asian MNEs from the NIEs. The size of our firms and initial internationalization stages of our case firms are key factors in determining this. Unlike western global MNEs, the roles assigned to the subsidiaries in our case firms were rather limited, with emphasis on meeting market demand of host countries and low cost manufacturing. Little attention is given to development of strategic roles for subsidiaries, which is currently emphasized in western global MNEs. Only in one firm in our sample was conscious attention given to the acquisition of strategic assets and knowledge via its international alliances. For Malaysian, as well other Asian, MNEs, greater attention should be accorded to the development of specific roles of subsidiaries for their rapid and effective internationalization and development. How will control and management of our Malaysian subsidiaries evolve? This answer to this question will depend on more research to be undertaken in subsidiary management among Asian MNEs, both in NIEs and lesser developed countries, such as Malaysia and China. Hence research in this key topic area is needed.

The exploratory findings here have to be tampered by the size and nature of the sample. The issue of applicability of research findings from this study to other contexts will depend on future studies with larger sample sizes, utilising both in-depth case study and other survey research methodologies, involving research at both parent and subsidiary levels to provide a fuller and holistic picture of parent-subsidiary management.

REFERENCES

(Details available from the author)